

TAB A

THE SECRETARY OF STATE  
WASHINGTON

March 12, 1983 4:50

MEMORANDUM FOR: THE PRESIDENT  
From: George P. Shultz *GPS*  
Subject: Proposed Changes in the Federal Retirement System

The Administration is preparing to ask Congress to approve certain changes in the federal retirement system. I am convinced that if those changes are applied to Foreign Service personnel it will have a devastating effect on our ability to attract and retain the qualified people we need. My colleagues in the State Department and I recognize the great need for economy in government, but the Foreign Service merits an exemption because it is clearly distinguishable from the Civil Service in two important aspects.

First, the Foreign Service is similar to the military in that it is based on an "up-or-out" principle. This is a very desirable principle, but it creates a definite risk for our personnel. We want to promote our best employees as rapidly as practical. To do that we cannot have our upper level jobs filled with competent officers who have leveled off in their performance. Therefore we permit officers to remain in a particular rank only for a limited number of years; if they are not promoted within that period they must be separated from the Service even though performing satisfactorily in their rank. This "up-or-out" concept causes us to terminate personnel in their early to mid-fifties, an age at which other employment is very difficult to find. We cannot, in good conscience, maintain such a desirable up-or-out policy unless our retirement system takes adequate care of those who are forced out at a relatively early age.

Second, Foreign Service employees are required to be available for service in any of 249 posts scattered around the world. They can expect to spend over half their careers overseas. In many of those posts our personnel are exposed to disease, a harsh climate, lack of adequate schools, a repressive social system and dangers of physical harm from both terrorists and common criminals.

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Above all they must be prepared to move every two to four years and such constant uprootings create serious family strains for both adults and children.

These two fundamental differences have long been recognized by the fact that Civil Service employees cannot retire with unreduced pensions until age 55 with 30 years of service, whereas Foreign Service personnel have always been able to retire at age 50 with 20 years of service. Now the Administration proposes to reduce all pensions by 5% for each year of age under 60 at retirement, which means that a retiree at 50 will lose 50% of his pension. This would be a severe blow to Foreign Service personnel who have looked to the retirement program as a primary incentive to accept the hazards of the Service and the risk of being terminated in their fifties under the "up or out" principle.

All of the above has been discussed with Dave Stockman. He believes that the exception of any group from the proposed changes would reduce the chances of Congressional approval. On the other hand, I am certain that failure to exempt the Foreign Service will drastically reduce our ability to maintain the caliber of the Service and will produce an immediate and intolerable effect on morale. Furthermore, military personnel are exempted, and our "up or out" policy was copied directly from them and provides the same reason for exemption.

I would urge you to exempt the Foreign Service from the proposed changes and would be pleased to meet with you if necessary to discuss the matter.